



No. 167

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

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DEC 27

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AIR MAIL

AMERICAN CONSULATE GENERAL
St. John's, Newfoundland, December 14, 1948.

ACTION
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SUBJECT: Terms of Union of Newfoundland with Canada.

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THE SECRETARY OF STATE,
WASHINGTON.

SIR:

I have the honor to refer to my telegram No. 94 of December 9th and to report that agreement having been reached between the Canadian and Newfoundland representatives after about two months' negotiation in Ottawa, terms for Newfoundland's entry into union with Canada as its tenth province were signed in the Senate chambers of the Canadian Parliament on the morning of December 11. Prime Minister St. Laurent and Defence Minister Claxton in his capacity of Acting Foreign Minister, signed for Canada while the Honorable Albert J. Walsh, K.C., Newfoundland Commissioner for Justice and Defence, leader of the Newfoundland delegation, and the other Newfoundland delegates, excepting Mr. Chesley Crosbie, signed for Newfoundland. Mr. Crosbie, as the Department is aware, was leader and founder of the Economic Union Party. He bitterly opposed confederation with Canada and advocated the country's return to self-government and closer economic ties with the United States. Mr. Crosbie refused to sign on the grounds that he considered the financial arrangements of the agreement inadequate to the country's needs.

The agreement consists of fifty clauses preceded by a preamble setting forth the basis for the Canadian proposals made to Newfoundland in 1947. With its signing accomplished it now only remains for approval to be given by the Canadian Parliament and the Newfoundland Commission of Government and to be confirmed by the Government of the United Kingdom. This achieved it will come into force immediately before the expiration of the 31st day of March, 1949, the end of the current fiscal year in both countries.

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The revised terms are substantially those presented to Newfoundland last autumn by the then Canadian Prime Minister, Mr. Mackenzie King, (Consulate General's despatch No. 499 of December 11, 1947), with certain modifications, elaborations and concessions to Newfoundland resulting from the two months' negotiation in Ottawa.

The opening clauses declare that from the coming into force of the agreement Newfoundland, as comprised today, shall form part of Canada to be known as the Province of Newfoundland, having a representation of six members in the Canadian Senate and seven in the House of Commons. The British North American Acts, 1867 to 1946, shall apply to Newfoundland as they do to the other Canadian provinces except insofar as varied by the terms. The Constitution of Newfoundland as it existed prior to 1934 when government by Commission was established, governing both the Executive and the Legislature, is to be revived on union. This is in order to provide for interim administration and the first provincial election until a Provincial Legislature can be convened, which must meet not later than four months after the date of union. A Lieutenant-Governor for the province will be appointed by the Governor General of Canada who, with an Executive Council, will administer the province until that time.

Having disposed of the above questions, Education is taken up in Clause 17 which, it is understood, was prepared by the Newfoundland delegation. It sets forth that the Provincial Legislature is to have exclusive authority in this field but may not make laws prejudicially affecting the rights and privileges of denominational schools existing at union.

Clause 18 is concerned with the application of Federal laws and its general purpose is to provide for gradual transition with Canadian statutes to come into force as they are proclaimed by the Governor General. It is also provided that the Newfoundland courts will remain unchanged although Canada will be responsible for payment of the Supreme Court judges. Further, until such time as a Provincial Legislature can meet to vote supply, the Commission of Government is authorized to vote such funds as may be required by the province.

Other clauses of particular interest and importance taken in their order are:

No. 22. This is a concession to Newfoundland and provides that the Newfoundland Fisheries Board, which

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has done so much for the industry, will be retained and maintained at Federal expense for at least five years and all Acts relating to it can only be changed during that period with the consent of both the Federal and Provincial Governments. It is further provided that the Board's Chairman will become the Chief Supervisor of the Province's fisheries.

Nos. 23-29 inclusive. These deal with the financial arrangements and are based on Mr. Mackenzie King's original proposals. Canada is to take over the sterling debt and the sinking fund established against it. The Newfoundland Provincial Government will retain its financial surplus, that is balances standing to the credit of the Newfoundland exchequer at the date of union and other public moneys or revenue due prior to but received subsequent to union, subject to certain conditions, and it will have the right within one year of the date of union to deposit all or any part of it held in dollars with the Government of Canada at 2 5/8 percent per annum for a period of 10 years. Canada will also pay to the new province annual subsidies (Clause 26) amounting to approximately \$1,540,000 and offer to enter into a tax agreement (Clause 27) for the rental to the Government of Canada of the income, corporation income and corporation tax fields, and succession duties tax field. On the subject of Transitional Grants to facilitate the adjustment of Newfoundland to the status of a province and the development of revenue producing services, the original Canadian offer to pay Newfoundland during the first 12 years of union a sum of \$3,500,000 for each of the first three years with payments diminishing at the rate of \$350,000 for each of the remaining nine, is considerably bettered by Clause 28 which raises the total to be received by \$16,500,000, or to \$42,750,000, with payments for the first three years at the rate of \$6,500,000. The following clause (Clause 29) provides for the appointment of a Royal Commission within eight years after union to review Newfoundland's financial position and make recommendations, if necessary.

Other concessions are contained in Clauses 46 and 47. The first permits the continuance of the manufacture of oleomargarine, or margarine, in Newfoundland although it may not be shipped from the province to any other province in Canada. The second concerns income tax and amounts in effect to individuals being liable for payment of only half the amount of income tax during 1949 that they would be liable for in the Canadian tax year on earned income and on investment income up to \$3,000. This was necessary as a result of Newfoundland's not being on a pay as you go basis for income

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tax as is Canada. It also gives Newfoundlanders the same treatment accorded the Canadian taxpayer when the system was introduced there.

No reference is made in the terms to the United States Bases, Clause 44 dealing with Defence merely setting forth that Canada will provide for the maintenance in the new province of appropriate reserve units of the Canadian defence forces, which will include the Newfoundland Regiment.

Accompanying the terms is a memorandum. As set forth by Prime Minister St. Laurent in his letter of transmittal to the leader of the Newfoundland delegation, it deals with certain administrative and other matters which it did not appear fitting to include in the formal terms of union. Amongst items dealt with it is of interest to note on page 4 under the heading Civil Aviation that "Pending re-negotiation of bilateral Air Agreements an arrangement will be made which will permit direct traffic between Gander and the United States to continue to move by air."

The memorandum on page 5, Section XI also sets forth that an effort will be made to make the amount of the surplus held in sterling by Newfoundland available in dollars to Newfoundland within a year after the date of union. This refers to all sterling balances held to Newfoundland's account in London, inclusive of sterling transferred for fish sales and amounts held in the form of interest free loans, other than sinking fund credits.

As to first public reaction to the agreement, this is, it is safe to say, reflected by St. John's dailies. The anti-Confederate Daily News found that "the terms must of course be considered against the background of events. The agreement.....is definitely an improvement upon the proposals made by Mr. King in October, 1947. That, however, is not to say that the terms are nearly good enough or that they are as good as might have been obtained if the negotiations had been conducted for Newfoundland by a properly elected government unhampered by prior commitments." The News points out that the terms must stand or fall by their long range impact upon the financial and economic well-being of the new province. It was here, this paper emphasized, that Mr. Crosbie and his colleagues differed. In Mr. Crosbie's opinion, according to the News, the terms provided for short-term stability and long-term uncertainty or worse.

On the other hand the pro-Confederate Evening

Telegram

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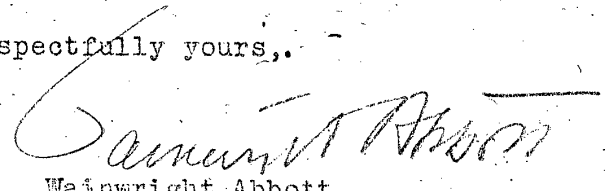
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Telegram, after touching on the concessions obtained by the Newfoundland delegation, concludes its editorial comment with "In the opinion of the Telegram, the terms of the agreement.....are testimony to the honest effort, the ability and the high sense of responsibility as representatives of Newfoundland which the delegation displayed in the performance of the important duty entrusted to them. They have fully vindicated themselves against the derogatory comments made in certain quarters on their qualifications to undertake the negotiations and this paper is convinced that the great majority of their countrymen will readily accord them the tribute which they deserve....." The Telegram had no comment on Mr. Crosbie's decision not to sign. And here it should be maintained in fairness to him that Mr. Crosbie made clear when he accepted the Governor's invitation to join the delegation that he reserved the right to be no party to any agreement which he was not convinced was to the country's best interest.

Copies of the terms and accompanying supplementary memorandum will be forwarded the Department as soon as they are available.

Respectfully yours,.


Wainwright Abbott
American Consul General

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Original parchment to Department.
Copy to: American Embassy, London.
American Embassy, Ottawa.
William P. Snow, Assistant Chief, BCA.

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